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RUEHCN/AMCONSUL CHENGDU 0006
RUEHGZ/AMCONSUL GUANGZHOU 0008
RUEHHK/AMCONSUL HONG KONG 0020
RUESLE/AMCONSUL SHANGHAI 0008
RUEHSH/AMCONSUL SHENYANG 0004
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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002915

SIPDIS

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TAGS: [EPET](#) [ECON](#) [EAID](#) [PREL](#) [PINR](#) [CH](#) [IZ](#)
SUBJECT: CHINESE EMBASSY ON WASIT OIL DEAL AND BUSINESS IN
IRAQ

REF: A. BAGHDAD 2368
[1](#)B. BAGHDAD 1181

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Classified By: Economic Counselor Michael Dodman for reasons 1.4(b) and
(d).

[1](#)1. (C) Summary: Negotiations between the Iraqi Ministry of Oil and the China National Petroleum Company to develop the al-Ahdab oil field in Wasit province are not yet complete, despite an August signing ceremony in Beijing, said Chinese Embassy Economic and Trade Counselor Zhue Yuesheng on September 8. Issues remaining include security guarantees, contract details, payment modalities, and the details of setting up a joint venture with the North Iraq Oil Company. Of primary concern to both the CNPC and the Chinese Government is the security of the Chinese engineers and managers who will be involved in the project. The Iraqi government has "guaranteed" their security, but the Chinese remain skeptical. The project is not expected to be completed, and crude oil to start flowing, for another three to four years. Wasit Province officials have not been involved in the negotiations, but were invited to Beijing since their goodwill is essential to getting work done in the province. China is continuing its training program for Iraqi officials and has modeled it on USG exchange programs. Chinese businesses are hesitant to come to non-KRG Iraq due to security concerns and have complained about how hard it is to get anything done in Iraq. End summary.

[1](#)2. (C) Econoff met with Chinese Embassy Economic and Trade Counselor Zhu Yuesheng on September 8. The meeting was held at the Chinese Embassy, in the al-Mansour Hotel. Mr. Zhu replaced Mr. Hu Yaowu (ref B) this summer. Bio notes and information about the Chinese Embassy are below.

Wasit Province Oil and Electricity Deal

[1](#)3. (C) China National Petroleum Company (CNPC) has entered into a roughly USD 3 billion services contract with the Iraqi Ministry of Oil to develop the Ahdab oil field in Wasit Province (refs A and B). This is the revival of an old deal that was first discussed in the Saddam era (1997). Output could be as high as 110,000 barrels per day, according to CNPC estimates, said Zhu. This is a services agreement and CNPC will be paid "something like" USD 6 per barrel produced.

[1](#)4. (C) While the deal was signed in Beijing in August, the

contract is still under negotiation on "small technical" issues. They are still making "arrangements." Zhu said that the Chinese side is concerned about Iraqi security guarantees, issues relating to how they will be paid by the GOI, other contract details, and issues with having to set up a joint venture with the Ministry of Oil's (MoO) North Oil Company. Zhu said he has not seen the terms of the final contract as it is being negotiated between the MoO and CNPC. However, the Chinese Government is placing a lot of emphasis on this project. "This deal has to be successful since it is the first one in order to encourage other Chinese companies to come. We have to guarantee the quality of Chinese work," said Zhu.

15. (C) Once these technical issues are resolved and the Chinese side is convinced of the security arrangements, work will begin at the site. Zhu said that he expected it could take up to a year for work to actually begin at the oil field. Once under way, construction and other work at the site will take roughly two years to bring the field online. Zhu said he expects it will be "three to four years" until work was completed.

16. (C) The Chinese side is very concerned about security. The Iraqis have guaranteed their security, but the Chinese Government and CNPC are not yet convinced. Zhu wondered aloud if the Iraqis would pay for a Chinese security firm, a "Chinese Blackwater" to secure the operation -- he also wondered if the U.S. "would allow" that to happen.

17. (C) Along with the oil contract is an associated deal to build a 1,300 MW power plant that will run off crude and possibly gas produced by the field (ref B). This project is

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being negotiated between the GOI Ministry of Electricity and the Shanghai Electric Power Company. Work on the power plant will not be started until work on the oil field is underway since it will rely on crude oil/gas produced by the Ahdab field. Zhu said that both projects "should be finished" and online at about the same time, "within three to four years."

18. (C) Both projects will use Chinese engineers and management, but rely on local Iraqi labor for the most part. Zhu said that wages of Chinese workers have gone up in China and the more people they bring from China the higher the risk here in Iraq.

Wasit Provincial Official Involvement

19. (C) According to Zhu, Wasit Provincial officials went to Beijing for the signing ceremony since it is a major deal in their province and since the Chinese have had a relationship with the provincial officials since the 1990s when the original deal was negotiated. Their involvement and support is necessary to make the project successful and secure. All negotiations, however, were done by the Chinese companies and the respective Iraqi ministries. The contracts are signed by the Ministries of Oil and Electricity. This is a deal between the GOI Central Government and the Chinese companies, said Zhu.

Chinese Businesses in Iraq

110. (C) Zhu noted that Chinese businesses are hesitant to come to Iraq due to their own security concerns. He said they are waiting for American businesses to come since they think that Americans know the situation best. The arrival of American businesses "will tell Chinese businesses that it is safe," he said. (Note: Ref B reports that there are Chinese businesses in the KRG.)

¶11. (C) Two Chinese telecommunication companies, ZTE and Huawei, are "trying to get established" in Baghdad. They are having a difficult time due to "the low efficiency of Iraqis." Zhu listed a number of complaints he has heard by Chinese businessmen about doing business in Iraq: "They only work half days; they are not motivated. We don't understand why that is, it is too hard to get anything done here. There are lots of delays that we Chinese cannot understand."

¶12. (C) In addition to security issues, Chinese businessmen are also concerned about the legal environment in Iraq, said Zhu. They are especially concerned about lack of guarantees that contracts will be honored and that they will be paid. They don't trust Iraqi banks. (Note: Zhu mentioned Trade Bank of Iraq and Rafidain by name) There have been problems with Letters of Credit (L/C's) not being honored. (Note: This is a growing problem, as the GOI moves the underwriting of L/C's under USD 2 million to private banks. End note.)

"We Have Learned from You" --
Chinese Government Training of Iraqis

¶13. (C) The Chinese have continued their training program for Iraqi officials that was begun in 2004. They are taking Iraqis -- "only a few every year, between 20 to 50" to China for training. Training programs have included power station and oil field management, economic administration, agricultural science (wheat and mushroom farming) and traditional Chinese medicine. They have problems getting Iraqis to China since they must first go to Jordan to get visas. The Chinese Embassy in Baghdad does not issue visas. Iraqis have problems getting to Jordan, he said.

¶14. (C) When asked why China does not bring trainers to Iraq, Zhu laughed and said that "China has learned from the U.S." the benefit of bringing officials to China for training. Noting that many Chinese have gone to the U.S. on exchanges and education, "paid for by scholarships," and these Chinese have a very good impression of the U.S. China wants these Iraqis to have a good impression of China so that they will "be friendly to China."

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Questions About Life at the U.S. Embassy

¶15. (C) Zhu wanted to know how many people would be working at the "very large, new" U.S. Embassy. He had heard that there were more than 1,000 diplomats living and working in Baghdad. He wanted to know what so many diplomats were doing. He was interested in the USG perspective on whether security was improving. Zhu also wondered what the U.S. would do for Embassy security when the military leaves Iraq. He was interested in whether U.S. diplomats were able to get to meetings outside the Green Zone.

Life at the Chinese Embassy and Bio information

¶16. (C) Zhu, who appears to be in his 50's, is a Ministry of Commerce employee and prior to coming to Baghdad this summer was the Commercial Attache in Iceland. He speaks English well and has traveled extensively in the U.S. He does not speak Arabic. He is married. Chinese diplomats are still restricted to the floor that they currently occupy of the Mansour Hotel, located outside of the International Zone. The Chinese diplomats eat, work and sleep there. In the two months since Zhu has been at post he has only left the building once to go to the Ministry of Foreign Affairs. While Econoff was in the meeting, the power went out. This

happens up to "10" times a day and is very frustrating, said Zhu.

¶17. (C) Zhu said that he got his news on what is happening in Iraq from the BBC and Iraqi TV.

¶18. (C) Though the Chinese have a diplomatic compound next to the Russian Embassy on the road to Baghdad International Airport, they have not been using it due to the security situation. It is a big compound and would take too many people to secure it, he said. This is very expensive, he added.

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